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Solutions to Expansion of Import-export Financing Operations at Agribank Thanh Hoa in the Process of Participation in Free Trade Agreements

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Abstract

This research aims to describe solutions to expansion of import-export financing operations at Agribank Thanh Hoa in the process of participation in FTAs (Free Trade Agreements). This paper presents the results of the study titled "Impacts of FTAs on Vietnam's Economy - Finance", clarifying the opportunities for and challenges to Vietnam's economy - finance from joining the FTAs and influences on Vietnam's commercial banks during the involvement in the FTAs. It also emphasizes the current situation of lending operations in Agribank-Thanh Hoa Branch (hereinafter referred to as Agribank Thanh Hoa), Complete solutions group credit activities financed import-export in Agribank Thanh Hoa, including solutions for executive management, professional solutions group credit for export financing, solutions group strategic human and banking technology and policy solutions for customers.

Introduction

The fact that Vietnam has entered into FTAs certainly promotes the import-export, makes the remarkable contribution to the increase of budget revenues, especially those from foreign currencies, improvement of balance of payments and employment for local people as well as acceleration of economic growth and development (Vanzetti et al., 2011).

In the expectation of the well-promoted import-export sector, it is essential to perfect quality and diversify commodities including agricultural products subject to the investment of the Vietnam's bank for Agriculture and Rural Development. The real situation of import and export of agricultural commodities in Thanh Hoa revealed many causes of the relevant restrictions, including the limited finance. Addressing such difficulties has been and continues to be the demand in question. To solve the existing challenges posed by the import and export of agricultural products in Thanh Hoa, it is inevitable for Agribank Thanh Hoa to find out solutions to expand the import-export financing operations during the entry into FTAs.

Methods

The conventional research methods, such as those of dialectical materialism, historical materialism, statistics, summarization, logical analysis are adopted to explicitly present the theoretical and practical contents.

Results and Discussion

Impacts of joining FTAs on Vietnam's commercial banks

Surely, the participation in trade agreements affords the opportunities for Vietnam's banks that will have the great potentials for expanding their scales in future, access to capital markets and modern management technology; by virtue of the fact, the Vietnam's banking system can directly benefit from the positives, including: (1) enhanced competitiveness, in connection with the fact that the integration is a driving factor for Vietnam's banks to actively improve their competitiveness, expand their scales, acquire new modes of governance and administration, proactively build strategic vision in the context of integration; (2) greater opportunities to approach funding sources, in connection with the fact that fund-raising by Vietnamese banks from overseas markets become more favorable; undoubtedly, the access to capital markets of developed countries open up opportunities for international bond issuance and expansion of the loan attraction scale from international financial institutions; (3) Improved service quality, in connection with the fact that the opportunities to transfer experience and modern financial technology country-by-country definitely facilitate Vietnamese banks' improvement of the quality of products and services provided to their customers. The presence of foreign banks and branches of the same increases the competitiveness and governance capacity of Vietnam's banking system, at the same time, diversifies the types of financial services, in this way, reinforcing the depth of financial markets; (4) Enhanced financial and governance capacity, in connection with the fact that the integration process enables Vietnam's banks to acquire the management knowledge and experience of the world's other financial markets, increase their accessibility to strategic partners overseas, and facilitate the improvement of financial and governance capacity; (5) Reduced costs of financial services, in connection with the fact that Vietnam's banks have the higher accessibility to high-end financial services with the same quality and price offered in the developed countries; (6) Expanded market and customer base, in connection with the fact that the international integration facilitates Vietnam's banks to expand their markets to other member countries involved. Apart from that, the spillover effects from the trade expansion increase not only the extent of import-export related service use by customers but also the demand for investment in some beneficial areas, which drives the demand for both the increased medium- and long-term credit capital and increased FDI inflows in the fields of export manufacture and creates the potential markets for the banks as well.

Increased pressure of being acquired or dominated, in view of the fact that at present, the internal resources of Vietnamese banks are limited. As the result, the foreign banks, possessing the strengths of sound financial potential, professional governance capacity and diversified products, upon their penetration into Vietnam's market, will put the significant pressure on domestic banks; Risks from volatility of global financial market, in view of the fact that the financial liberalization concurrently put the domestic financial market at the disadvantage of the increased risks and sensitivity to changes in regional and global markets, especially exchange rate and interest rate risks; Risk of loss of domestic market shares, in view of the fact that Vietnam's banks no longer maintain over time their competitive advantages of customer bases and domestic distribution systems, which is assignable to the appearance of foreign banks.

The competition with foreign banks possessing the outstanding scale and modern management level poses the big challenges to Vietnam's banks; Spillover risks from customers, in the view of the fact that commitments on tax cut and removal of protectionist policies in some areas lead the corporate customers of commercial banks to suffer from the fierce competition with enterprises in the region. Without taking advantage of opportunities from the integration,

undoubtedly, domestic enterprises face many big challenges resulting in the risks of increased bad debts and declined quality of loan portfolio currently held by commercial banks (Arunkumar & Kotreshwar, 2006; Tran, 2008; Nguyen, 2017).

As it is shown in Figure 1, the female participation rate is much lower than the male participation rate. The respondents ascribed this lack of female engagement to social and cultural factors. However, the fact that the female participation rate in the labor force is increasing, the female entrepreneurship experience shows steady progress compared to previous years. In attempting to understand the lack of engagement in business, the respondents disclosed that there is considerable fear of failure. This fear among female entrepreneurs directly affects their attitudes towards creating business. Given the progress made in the country in terms of women empowerment, the trend is bound to change with increased exposure to business activities and engagement in training.

Most of the entrepreneurs in Jordan are between the age group from 25-34. This indicates a younger generation of entrepreneurs associated with start-up initiation. The figure below clearly shows the age groups in relation to entrepreneurship activities. It is shown that 34.8 percent of the owners of start-ups are aged between 25 and 34 years old. It is a promising indicator, reflecting the early engagement of young Jordanians in business creation. In addition to securing self-employment, this young workforce of entrepreneurship is destined to create employment opportunities for others as well, eventually contributing to the reduction of unemployment in the country.

Actual situation of lending operation at Agribank Thanh Hoa

Table 2. Outstanding loan balance structure according to economic sectors at Agribank Thanh Hoa

Unit: VND billion

Index	2016	Proportion (%)	2017	Proportion (%)	2018	Proportion (%)	2019	Proportion (%)
Outstanding loan balance	9,900	100%	11,543	100%	13,919	100%	16,419	100%
1. Enterprises	3,391	34.3%	3,619	31.4%	3,919	28.2%	4,145	25.2%
- State-own enterprises	2	0.0%	9	0.1%	8	0.1%	7	0.04%
- Joint stock companies, and limited companies	3123	31.5%	3,313	28.7%	3,634	26.1%	3844	23.4%
- Foreign-invested enterprises	0	0.0%	0	0.0%	0	0.0%	0	0.0%
- Other kinds of enterprises	266	2.7%	297	2.6%	277	2.0%	294	1.8%
2. Households and individuals	6,509	65.7%	7,924	68.6%	10,000	71.8%	12,274	74.8%
- Loans through the	2,667	26.9%	3,347	29.0%	4,735	34.0%	5,983	36.4%

borrowing groups								
- Loans for living needs	585	5.9%	620	5.4%	888	6.4%	1,223	7.4%
- Farm loans	67	0.7%	96	0.8%	110	0.8%	125	0.8%
- Labor export loans	8	0.1%	3	0.0%	6	0.0%	7	0.0%
- Direct loans	3,190	32.2%	3,857	33.4%	4,262	30.6%	4,936	30.1%

Source: Agribank Thanh Hoa's annual report, 2019.

The common customers of Agribank Thanh Hoa mainly consist of households and individuals engaged in agriculture, forestry, fishery, salt production, as well as farms and households engaged in the agricultural production and services. These customers account for the major proportion of total outstanding loans at Agribank Thanh Hoa. The key lending programs aim at high-yield rice production, sugarcane raw material areas, centralized farming husbandry and family farms, mechanization of agricultural production, development of trade villages, and households in the scope of building of economic infrastructure toward new-style rural areas.

Solutions for improvement of import-export financing operation at Agribank Thanh Hoa

The orientations of the import-export credit operation driven by Agribank Thanh Hoa must be consistent with the socio-economic development policies set out by the State and included in the Branch's business strategies.

The capital growth acts as the prerequisite for the assurance of the sound credit growth. The more capital the Branch mobilizes, the more favorable its lending or diversification of business activities to serve customers are, and vice versa, the effective use of more and more capital encourages the Branch to promote the diversification of funding forms. For this reason, it is inevitable for the Branch to further its expansion and operation of funding sources in the following directions: (1) Developing the schemes for promissory note issuance to foreign countries to enter the international capital market. It is the critical basis for fund-raising by promissory notes and trading in international securities markets. The key to success of this operation is staff with sufficient qualification and experience. Firstly, intermediary promissory notes should be issued through reputable correspondent banks. Although the buying brokerage operation is not effective, it is still safe and provides the prerequisite for long-term business strategies. After penetration into the monetary markets, then, careful selection and testing, the Branch will step by step establish its representative offices and branches in these markets to swiftly harmonize and integrate with the international banking community; (2) Further encouraging residents to deposit money in Agribank Thanh Hoa (2019), via realizing the policies on increase of deposit interest rates in both VND and foreign currencies in short, medium and long term. For traditional customers, the Branch should offer the worthy rewards and special preferential policies; (3) Taking advantage of its reputation to make the best of the State budget's investment capital in spearhead economic sectors and import-export business...; additionally, promoting long-term loans at international institutions based on external relation of Agribank system.

Loan financing is conducted in the form of projects in which the process of goods circulation from production to consumption is closed. The selection and evaluation of investment projects acts as the most important factors for the Branch's success. However, a project, although it has been evaluated and approved by competent agencies, cannot be subject to a definite lending decision until the Branch re-evaluate and reviews inclusively the followings: (1) legality of

dossiers including project and construction documents according to the State's construction conditions, equipment procurement documents according to bidding mechanism and regulations of the Ministry of Trade (in case of presence of imported equipment), and credit documents according to the Branch's regulations; (2) projects' borrowing and repayment plans calculating the funding and sponsorship sources and forecasting fluctuations of the influence factors on debt repayment sources ; (3) effective spending groups: payback period, net present value (NPV), internal payback rules, profit margins.

Like other types of credit operation, the import-export credit process is divided into three stages according to the timing and nature of loans. It is the beginning but most important stage demonstrating the Branch's accessibility to projects and customers. For traditional enterprises which are reputable and regularly traced by credit officers, it is required to only focus on evaluation of business plans of customers. Regardless of whether working or fixed capital lending plans are submitted, the basic matters, which should be involved, include: i) Affirming the goods and service market in the business plans based on consumer market area, competitive price and quality, relationships of enterprises in the market, sellers and purchaser; collecting the information from banks and other enterprises; adopting risk prevention information system using statistical methods; comparing, summarizing and evaluating products in relation to the State' policies and in comparison with countries in the international market; ii) Re-evaluating all data and indicators of business projects based on the system of available methods and formulas, or data loaded onto computers using pre-installed programs.

Although the loan documents are inclusively assessed by credit officers, the approval process is indispensable. The accountants, acting as the last pre-disbursement controller, checks and stores mortgage assets, collaterals, facility agreements and loan agreements, prior to loan disbursement or remittance (T/T), and maintains the disbursement documents as valuable papers. It is the stage of testing the accuracy and objectivity of the business plans already evaluated by the Branch, covering: (1) the intended use of loans. In principle, loans to be granted are only used for proper purposes stated in the business plans. It is undeniable that the development of loans in cash, money orders and checks, gives rise to difficulties in the control mechanism of the Branch. The best solutions are granting mandatorily loans through accounts to corporate borrowers, and encouraging individual production households; (2) Debt recovery and settlement. For overdue debts, the repayment amounts from customers include principals and interests. In case of accounting treatment to collect the principals of the entire revenues, the Branch is able to reduce the overdue loan balance without earnings, and vice versa, in case of accounting treatment to collect interests first, the loss of funding is unavoidable. Therefore, according to the principle of capital preservation, the Branch needs to collect principals first because no income is taken account for any banks with outstanding overdue debts.

At present, some banks make the accounting treatment of overdue debt collection with the principal to interest ratio of 50/50, which is not reasonable. (1) Building a standardized warehouse system for management of supplies and goods as mortgage assets. Warehouse business is implemented under the financial contracting regime of purchasing companies. In principle, mortgage assets for loans must be pre-formed and independent of loans. However, if the Branch holds the sufficiently secure warehouses, it is possible to accept loan-generated assets as the goods and supplies to guarantee the mortgage lien release on the basis of borrowers' payments. (2) Subscribing force majeure insurances regarding natural disasters, floods, fires, etc. for assets managed by the Branch. The Branch may, via agreements with domestic and foreign insurers, cause borrowers to buy insurance for the goods as the mortgage assets at the Branch. (3) Establishing companies to buy, sell and operate the outstanding mortgage assets of credit institutions. Based on the current status of the outstanding assets'

values and companies' abilities, the credit institutions shall transfer the outstanding assets to the companies in the form of entrustment or on the basis of agreed transfer contracts, facilitating the credit institutions' effective capital recovery and effective operation of outstanding assets. For effectively handling the operation, it is required to focus on solving problems in legal procedures. For example, the mechanism for the Branch to allow mortgage assets to be further operated by enterprises under new production and business plans to maintain their repayment sources should be available; otherwise, the Branch is entitled to directly sign authorization contracts to sell the assets to auction centers and the assets subject to court proceedings without intermediaries.

In addition to the objective and subjective risk factors in ordinary credit operation, import-export financing operation also suffer from the great influence from two factors, namely, the interest rate and exchange rate of transaction currencies. If the frequent fluctuations of these are favorable for banks in credit operations, they are harmful to customers and vice versa.

For the purpose of the effective management for interest rate and exchange rate risks, foreign banks are professionally applying the solutions of foreign exchange trading in the monetary markets using the following main tools: (1) Forward trading contracts ; (2) SWAP operation on interest rates; (3) option contracts of interest and exchange rate .

To facilitate the implementation of these operations, the Branch is required to meet the following subjective conditions: (1) Effective business schemes and solutions for hedging safety; (2) Processes in accordance with the State Bank's regulations and the Branch's business practices. Most importantly, the strict management for judgments, foreign exchange status, inspection, controls and marketing information systems should be ensured; (3) Eligibility in term of human, equipment and banking technology. During Vietnam's participation in the FTAs, the Branch should make the best efforts to facilitate the application of credit guarantee and installment credit.

Regarding installment credit: The importers of machines and equipment from abroad with quite long usage duration have the high demand for medium and long-term loans. To provide the assistance, the Branch offers them with credit extension under which they are enabled to periodically pay on account the loan amounts. In fact, the owners can lend short-term capitals (as the most advantageous of the Branch) instead of medium- and long-term capitals because enterprises can pay in a periodic manner according to the agreements with the Branch.

Regarding guaranty operation: The State Bank issued Decision No. 196 QD-NH14 dated September 16, 1994 on the promulgation of regulation on guaranty operations of banks, which guides the implementation of bidding guarantees, performance guarantee, advance payment guarantee, payment guarantee, product quality guarantee under contracts, and loan repayment guarantee. For the recent few years, realizing the various types of guarantees under Decision 196, commercial banks have offered guarantees to a lot of enterprises as bidders in process of contract performance which, accordingly, assists effectively the project implementation, capital attraction and technology for the development of the national economy.

It is a form of credit playing the important role in both addressing capital issues and speeding up goods circulation; nevertheless, the negative consequences of the same are in question because of the serious impacts if its nature and complexity is not grasped. Therefore, upon the application of the form of import-export guarantee, there is a strict need to follow the same rigorous procedure imposed upon a loan of the same type: (1) Assessing and preparing sufficient credit documents; (2) Phasing debt collection plans; (3) Checking and managing

capital in accordance with credit process; (4) Organizing fully on-balance and off-balance sheet accounting treatment.

Banking technology acts as an important constituent element of the competitiveness of a commercial bank; namely, it helps to: (1) reduce costs, speed up payment and cash flow, centralize and use business capital effectively; (2) perform the on-the-counter accounting of transactions, remotely check and control interbank market operations, manage statistical reports and hedging information, manage and maintain credit documents, and facilitate banking accounting, as well as ensure safety and effectiveness of international payment operations and foreign currency trading. Thanks to the world's information technology at present, a lot of favorable opportunities are opened up to Agribank Thanh Hoa in term of its banking modernization strategy. In the coming year, the Branch should focus on implementing step by step the strategy as follows:

(1) strengthening the development of direct payments using SWIFT system; ensuring the quickness and accuracy in capital flow and document distribution and ensuring the centralized foreign currency capital management; consolidating the internal interrupted payment system via computer network; ensuring update of information; implementing the pilot network connected to a number of large enterprises, then, gradually broadening conditionally it to the customers; (2) step by step modernizing non-cash payment instruments via banking and corporate payment cards and ATM cards, ensuring that customers who deposit money can withdraw at any branch in the country; (3) upgrading the Branch's operating premises and working facilities.

The first thing which should be mentioned here is personnel planning at all levels, of which the basic knowledge should be provided in two forms of centralized and orientation training with the aim of the effective self-study of banking staffs and employees so that they are qualified to their assigned positions. It is necessary to eliminate thoroughly the training to out-of-plan trainees such as staffs subject to the fixed retirement, substandard health or working capacity, and discipline.

The training is conducted in the direction of centralization and specialization. Firstly, the priority is given to training to credit officers and accountants, and to the implementation of universal informatics programs. A group of informatics experts who are capable of formulating informatics schemes and programming the arising transactions of the Branch should be established. The material rewards and pay rise are applied to encourage the specialized staffs to be eager to learn foreign languages, and vice versa, the language staffs to be eager to learn specialties, and overtime scientific research staffs as well.

Secondly, selection and employment of staffs. The Branch should implement regime of personnel selection examination. Over the years, the entrance exams have mainly focused on foreign languages tests. Therefore, it is necessary to include other specialized subjects in the exams to select the staffs who are eligible in term of both qualifications and social awareness. Thanks to the successful selection of personnel, the Branch will gradually overcome the "excess-but-lack" situation at present in term of personnel.

Thirdly, the higher requirements and standards of competence are applied to selection of import-export credit officers. They must have not only professional knowledge but also basic level of commerce, law, foreign languages, etc. If the requirements for staffs are not met, international payment operations cannot resolutely conducted.

Customers are the core of existence and development of commercial banks (Kanojia & Yadav, 2012; Van Quyet et al., 2015). Customers, therefore, are the determinant of structure and size

of funding sources as well as capital use of the Branch, demonstrating the prestige and competitiveness of the Branch on domestic and foreign markets (Delcoure, 2007; Frey & Kerl, 2015). For the success of customer service policies, the Branch may apply the following forms and measures:

Firstly, customer classification. Most importantly, assessing customers should be based on their credit relationships with the Branch. The key grounds for customer classification are financial and business capacity. Although it is necessary to objectively and properly analyze overdue debts to classify customers, the most important is that conducting the task by the grassroots branches for each target customer should be in accordance with practical situation. It is advisable to offer the preferential interest rate mechanism for both large and traditional customers as well as customers with financial difficulties.

Secondly, organization of customer conferences. It is an effective form of operational organization for both banks and customers. Customer conferences not only enable the customers to meet and exchange information with each other, but also create opportunities for both customers and the banks to grasp the difficulties and obstacles to mutually propose solutions. It is required to attach importance to the quality of organization of customer conferences.

The most important of all is customer evaluation and selection, survey and development of conference contents to find the focused topics, and also, openness for customers to discuss, thereby assessing the capacity and quality of banking staffs. At present, one of the common types of conferences held by foreign banks is seminar that is hosted by a bank and attracts the participation of its partners as banks and enterprises. The type has rich contents such as experience exchange, discussions on new operations and risk management measures.

Thirdly, from marketing and consultancy to business cooperation. Banks always acts as the most effective financial advisor for customers' business projects. Regarding foreign trade, banks play the critically important role in marketing to assist customers in seeking new markets, partners and products. Banks are also engaged in credit extension and credit guarantee for exported goods.

In capitalist countries, bank capital has penetrated industrial and commercial capital for long, and involved the close management of all stages of production and circulation. The merger created the synergy of groups in term of finance, business and goods consumption.

Conclusion

Regarding the expansion of markets and potential customers, the international integration facilitates Vietnamese banks' expansion of their markets to member countries. In addition, the spillover effects from the trade expansion increase not only the extent of import-export related service use by customers but also the demand for investment in some beneficial areas, which drives the demand for both the increased medium- and long-term credit capital and increased FDI inflows in the fields of export manufacture and creates the potential markets for the banks as well. Together with other banks in the whole industry, Agribank Thanh Hoa with the leading role in the agricultural and rural sector in the locality has carried out the versatile and comprehensive innovation of its operation. In this regard, import and export credit is a new product of the Branch. As a consequence of the unstable monetary conditions and fierce competition, as well as the internal reasons such as people, conditions of facilities, which result in the difficulties for such operation, the improvement of credit quality in general and the import and export credit quality in particular still face certain limitations.

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